BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

LeRoy Koppendrayer	Chair
Marshall Johnson	Commissioner
Ken Nickolai	Commissioner
Thomas Pugh	Commissioner
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In the Matter of the Petition of Otter Tail Power for Approval of its Modified Standby Tariff and Distributed Generation Service Rider

ISSUE DATE: March 21, 2006

DOCKET NO. E-017/M-04-2013

ORDER APPROVING TARIFF RIDERS AND RELATED DOCUMENTS AS MODIFIED

PROCEDURAL HISTORY

On September 28, 2004, the Commission issued its ORDER ESTABLISHING STANDARDS, governing the terms under which a retail electric utility would interconnect with a customer's plant that uses certain "clean" fuels to generate up to ten megawatts (MW) of power for use on-site by the customer, with any unused electricity sold to the utility.[1] The Commission referred to these plants as "distributed generation" (DG). The Commission directed retail electric public utilities to file tariffs consistent with the Order, including the attached process and technical documents and financial guidelines.

On December 23, 2004, Otter Tail Corporation d/b/a Otter Tail Power Company (OTP) initiated the current docket by proposing terms under which it would interconnect with and support the operations of a DG customer.

By August 31, 2005, the Commission had received comments from the Minnesota Department of Commerce (the Department) and collectively from CenterPoint Energy, Frauenschuh Power Development, Hennepin County's Department of Environmental Services, the Institute for Local Self-Reliance, the Izaak Walton League of America's Midwest Office, Korridor Capital Investments LLC, the Minnesota Chamber of Commerce, and The Minnesota Project (collectively, the DG Coalition). The Department amended its comments on October 5.

On October 14, 2005, OTP filed reply comments.

This matter came before the Commission on January 26, 2006.

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[1] *In the Matter of Establishing Generic Standards for Utility Tariffs for Interconnection and Operation of Distributed Generation Facilities under Minnesota Laws 2001, Chapter 212,* Docket No. E-999/CI-01-1023, ORDER ESTABLISHING STANDARDS (September 28, 2004).

FINDINGS AND CONCLUSIONS

I. Background

Most electricity is generated at large power plants, then transmitted long distances to where it is needed. In contrast, distributed generation refers to the practice of generating electricity with multiple, dispersed power plants, typically located closer to the customers being served. Many benefits have been attributed to distributed generation, including reducing the demand on long-distance transmission lines, enhancing reliability, ameliorating environmental consequences and increasing customer choice.

The potential for these benefits would be lost, however, if the process of connecting small generators to the electric grid proved too dangerous, or the process of negotiating such connections proved too burdensome. To avoid this outcome, the Legislature directed the Commission to establish parameters for interconnection that would balance the needs of the utility and its ratepayers with the needs of the small generators. Utilities would then propose tariffs establishing standardized terms for interconnection consistent with the Commission-approved parameters. Minn. Stat. § 216B.1611, subd. 2.

As noted above, the Commission adopted appropriate standards on September 28, 2004, and directed utilities to file distributed generation tariffs that conformed to the standards. OTP's response to that order is the subject of the current docket.

II. Otter Tail Power Company's Proposal

OTP's filing contained the following documents:

- Electric Rate Schedule Volume 1, Sheet 75, Rate Designation P-20M "Distributed Generation Service Rider" (DG Rider), a new rider (that is, collection of terms for an optional service offered to customers who also accept some other "basic" tariffed service) governing the relationship between OTP and a DG customer.

- Electric Rate Schedule Volume 1, Sheet 40, Rate Designation C-10M "Standby Service," a revised tariff establishing terms under which OTP would supply temporary service in the event a customer's generator proves to be inadequate to meet the customer's needs.

III. Analysis and Commission Action

The Department supports most aspects of OTP's proposal as filed, but both the Department and the DG Coalition recommend modifications and clarifications. OTP has agreed to some of these modifications and clarifications, but not others.

The Commission appreciates the efforts of all parties in fashioning workable policies for removing unwarranted impediments to DG development. Having reviewed the record of the case and the arguments of all parties, the Commission will adopt OTP's proposal as revised and clarified in the Ordering paragraphs. Where parties did not reach agreement, or where the Commission's reasoning in adopting the parties' agreement warrants elaboration, the rationale for the Commission's decision is set forth below.

To implement the changes discussed below, the Commission will direct OTP to file a conforming tariff and rider within 30 days of the date of this Order. Parties may reply to OTP's compliance filing within 10 days thereafter.

A. Process and Technical Documents

The Commission's ORDER ESTABLISHING STANDARDS includes the following attachments:

- A "Proposed Interconnection Process for Distributed Generation Systems."
- A statement of "Distributed Generation Interconnection Requirements."
- A "General Interconnection Application" form.
- An "Engineering Data Submittal" form.
- A "Proposed Interconnection Agreement."[2]

These documents set forth the minimum standards for a small "Generation System" to interconnect with the "Area Electric Power System" or "Area EPS." The Area EPS is defined as the entity that serves the "Local EPSs" such as distributed generators, and typically has primary access to public rights-of-way. Within an electric utility's service area, the Area EPS is the electric utility.

In the interest of facilitating the DG process, the Department recommends that OTP post these documents on its World Wide Web site but substitute the more familiar "Otter Tail Power" for the less familiar label "Area EPS." OTP agreed to post these modified process and technical documents on its Web site and no party opposed it.

Additionally, the Department recommended that OTP amend its rider to 1) indicate where to find the documents on OTP's site on the World Wide Web, and 2) inform people who lack access to the Web how to obtain copies of the documents from the company. OTP agreed to the Department's proposal; again, no party opposed it.

The Commission finds the Department's proposals will help reduce needless barriers to the development of DG projects and conform to the Commission's past practice.[3] They will be approved.

B. Availability and Qualifications

The Legislature requires electric utilities to establish standardized terms for interconnecting with certain types of DG customers, consistent with Commission-approved guidelines. The Commission designed its standards to reflect the costs and benefits of interconnecting with customers that meet certain criteria; not every DG project will qualify for these standardized terms.

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[2] *Id.*, Attachments 1 - 5.

[3] See, for example, *In the Matter of the Petition of Minnesota Power for Approval of Rider for Distributed Generation Service and Rider for Standby Services*, Docket No. E-015/M-04-2030, ORDER APPROVING TARIFF RIDER AND RELATED DOCUMENTS (November 7, 2005) (*Minnesota Power DG Order*) at 8.

In particular, in order to qualify for these terms, the Commission ruled that –

> *[t]he DG facility must be an operable, permanently installed or mobile generation facility serving the customer receiving retail electric service at the same site.*[4]

The Department recommends that the proposed DG Rider state up front that the rider only applies to an operable, permanently installed or mobile generation facility serving the Customer receiving retail electric service at the same site. The Commission finds this proposal reasonable and will adopt it.

C. Payments to the Utility

The ORDER ESTABLISHING STANDARDS provides for a utility to establish the rates it will charge a DG customer for the added services that the distributed generator may require. The Order lists the following services:

a. Energy and capacity.

b. Scheduled maintenance service (energy, or energy and capacity, supplied by the utility during scheduled maintenance of the customer's non-utility source of electric energy supply).

c. Unscheduled outages (energy, or energy and capacity, supplied by the utility during unscheduled outages of the customer's non-utility source of electric energy supply).

d. Supplemental service (electric energy, or energy and capacity, supplied by the utility to the DG customer when the customer's non-utility source of electricity is insufficient to meet the customer's own load).

e. Other services deemed necessary.[5]

In its Standby Tariff, OTP proposes to charge DG customers for energy and capacity for scheduled maintenance service, unscheduled outages and supplemental service. In its DG Rider, OTP proposes to charge DG customers for interconnection services, supply services, transmission services and distribution services. The rider includes a charge for interconnection, a charge for the cost of meters and installation, a monthly "Distribution Maintenance Charge" and a monthly "Service Charge." While most of these proposed charged provoked no controversy, parties disagreed about the DG Tariff's Distribution Maintenance Charge and Service Charge; they also disputed much of the language in the Standby Tariff.

1. DG Distribution Maintenance Charge

[4] ORDER ESTABLISHING STANDARDS, Attachment 6.

[5] *Id.*, Attachment 6, Item 3.

As noted above, OTP offers DG service as a rider; that is, DG customers must pay OTP for some basic electric retail service before they may subscribe for OTP service. To the extent a DG customer requires more distribution plant than OTP provides as part of basic retail service, OTP proposes to recover that additional cost – including the cost of additional meters and installation – through an excess facilities charge.

In addition, OTP proposes to recover the ongoing cost of running those excess facilities through a monthly "Distribution Maintenance Charge." OTP estimates these costs based on its average operation and maintenance (O&M) costs for distribution plant.

The Department agrees that OTP is justified in seeking reimbursement from a DG customer for the incremental cost of the customer's excess distribution facilities, and the incremental cost of operating and maintaining those facilities. But the Department questions whether OTP's average O&M cost for distribution plant is a sound basis for estimating OTP's average O&M cost for new DG distribution facilities. The Department reasons that newer facilities would not break down as often as older ones, and therefore would incur less O&M cost. Moreover, the Department notes that OTP's average O&M cost includes the cost of running electric substations, which are largely unrelated to the incremental cost of providing DG service. The Department proposes eliminating the Distribution Maintenance Charge until the parties gain more experience with these matters.

OTP acknowledges that newer plant may tend to incur less O&M expense than its system average, but argues that this advantage will dissipate as the plant ages. OTP claims that the Department's position would have the effect of estimating future DG O&M costs at $0. OTP argues that its proposed estimate could not be less accurate than $0.

Throughout this docket the Commission has had to rely on estimates of the cost of providing DG services without much benefit of past experience, and therefore the Commission appreciates the merit in both parties' arguments. The Commission is persuaded that OTP should be permitted to assess a charge to recover its O&M costs for excess DG distribution plant. The Commission is not persuaded, however, that OTP's system average O&M cost reflects the appropriate level. Consequently the Commission will direct OTP and the Department, as part of OTP's compliance filing, to develop an appropriate initial estimate of O&M costs for excess DG distribution plant based on OTP's experience operating and maintaining the plant most analogous to the plant required for DG service. The parties will be free to propose changes to this charge in future proceedings as they gain more experience with the cost of distributed generation.

2. DG Service Charge

As part of its DG rider, OTP proposed to charge $12.34 per month to recover customer account expenses that are not recovered through basic service charges. OTP calculated this figure using data from a trade secret study identifying its cost of providing various services. OTP totaled the cost of meter reading, customer records and collection, uncollectible debts, supervision, and miscellaneous customer account expenses, plus a share of administrative and general "overhead" expenses that cannot be tracked to any specific service.

The Department objects to OTP's proposal to recover overhead expenses through the DG rider service charge. The Department argues that these costs are more appropriately recovered through rates for basic electric service, and that setting the rate for DG service to be higher than its incremental cost would inappropriately discourage potential DG customers.

In contrast, given the amount of individualized attention each DG account will require, the Department argues that the DG service charge ought to recover customer service and informational expenses (CS&I). While OTP recovers similar costs through basic rates, the Department argues that DG customers should bear the cost of the additional CS&I expense incurred in providing DG service. Because the parties have little experience to inform their estimate of incremental CS&I expense, the Department recommends calculating the service charge using figures from OTP's general service cost study for the present, and re-evaluating these costs in the future.

The Commission finds the Department's proposal to be reasonable and will approve it. The recommendation reflects the principle that the rates a utility charges for DG service should reflect the added costs that the utility incurs to provide the service. And the recommendation is based on the best available cost information, acknowledging that the rates may change in future proceedings as all parties gain more experience with the service. Based on the trade secret data, the Commission calculates the appropriate monthly service charge at $11.57.

3. Standby Service

Since 1994, OTP has offered "standby" electricity for customers that have their own source of electricity. A subscriber receives electricity when its power source is interrupted or when the subscriber's demand for electricity exceeds its supply. OTP's service is "firm" – that is, OTP reserves capacity to generate and transmit electricity to these customers even during periods when no additional capacity is available. OTP charges its firm standby customers for the cost of the service, including the cost of reserving the necessary capacity.

a. Non-Firm Service

Because the ORDER ESTABLISHING STANDARDS provides for utilities to offer both firm and "non-firm" standby service, OTP's filing includes the terms of a new non-firm service. The non-firm standby service would be cheaper than OTP's firm service, but subscribers would run the risk that OTP would not be able to serve them during times of peak demand for electricity or reduced supply.

The DG Coalition objects to standby charges, and reservation fees in particular, on the grounds that they burden the development of distributed generation. The Department initially shared the Coalition's concern about whether OTP intended to require non-firm customers to bear a share of the cost of reserving generation and transmission capacity. The ORDER ESTABLISHING STANDARDS states –

> *i. Generation (energy and capacity): There are no monthly reservation fees for energy and capacity for a non-firm DG customer.*
>
> *ii. Transmission: There are no monthly reservation fees for transmission for a non-firm DG customer.*[6]

OTP subsequently clarified that DG customers could avoid bearing the cost of reserving generation or transmission capacity if they select non-firm standby service, but not if they select firm standby service. The Department now concludes that OTP's proposal comports with the

[6] ORDER ESTABLISHING STANDARDS, Attachment 6.

Commission's reasoning in its ORDER ESTABLISHING STANDARDS.
The Commission shares the Department's assessment. No changes in OTP's tariffs will be required on this basis.

b. Exemptions from Paying for Standby Service

The Commission's ORDER ESTABLISHING STANDARDS identifies two instances where a DG customer need not bear additional cost for standby service. First, the Order makes provision for a "Physical Assurance Customer" – that is, a customer that agrees not to require standby service and that installs a mechanical device to ensure that no standby service is taken.

Second, the Order provide a de minimis exception. While a utility bears a cost to provide standby service, the smaller the generator's output, the smaller the burden a utility bears to replace that power. If a generator is small enough, the utility's burden of providing standby service becomes subsumed within the utility's burden of coping with the system's normal fluctuations in supply and demand. And where a DG customer does not impose any additional costs on a utility, no additional charge is warranted. On this basis the Commission barred additional standby charges for generators with no more than 60 kilowatts (kW) of capacity. However, the Commission also directed utilities to report in 24 months on the number of customers taking advantage of the 60 kW exception and the amount of standby service they use.

OTP asserts that its has incorporated these policies into it proposed Standby Tariff. First, its "Application of Schedule" section states that the tariff applies to –

> ... any customer who has the following conditions:
>
> 1. Requests to become a Standby Service Customer of the Company. Otherwise, the Company views the Customer as a Non-Standby Service Customer;
>
> 2. Utilizes Extended Parallel Generation Systems to meet all or a portion of electrical requirements, which is capable of greater than 60 kW....

Second, the tariff distinguishes between customers taking standby service and other customers, defining a Non-Standby Service Customer as one that –

> a) does not request and receive approval of Standby Services from the Company or, b) is exempt from paying any standby charges as allowed by law or Commission Order, or, c) in lieu of service under this tariff, may provide physical assurance, or d) will take service from any of the Company's other approved tariffs.

The Department argues that this language is insufficient to inform DG customers of their opportunities to avoid incremental standby costs. The Department proposes clarifying the Application of Section language to say that the tariff applies to –

> ... any customer who has the following conditions:
>
> 1. Requests to become a Standby Service Customer of the Company. Otherwise, the Company views the Customer as a Non-Standby Service Customer~~;~~. For information about the different categories of Non-Standby Service Customers, including exemptions from Standby Service, please see Attachment No. 1-Definitions.

2. Utilizes Extended Parallel Generation Systems to meet all or a portion of electrical requirements, which is capable of greater than 60 kW~~, and~~;. Customers with Extended Parallel Generation Systems[7] used to meet all or a portion of electrical requirements that are capable of 60 kW or less are considered Non-Standby Service Customers and exempt from paying standby charges. Please see Attachment No. 1-Definitions for more information regarding Non-Standby Service Customers.

In addition, the Department recommends amending the tariff's proposed definition of Non-Standby Service as follows:

> Non-Standby Service Customer is a customer that a) does not request and receive approval of Standby Services from the Company or, b) is exempt from paying any standby charges as allowed by law or Commission Order, or, c) in lieu of service under this tariff, may provide physical assurance, or d) will take service from any of the Company's other approved base tariffs. Customers with Extended Parallel Generation Systems used to meet all or a portion of electrical requirements that are capable of 60 kW or less are considered Non-Standby Service Customers and exempt from paying standby charges. Standby Service for Customers with Extended Parallel Generation Systems used to meet all or a portion of electrical requirements that are capable of 60 kW or less is available under the Customer's base rate. For more information regarding physical assurance customers, please see Physical Assurance Customers under Definitions.

Finally, the Department recommends that the Commission direct OTP to report within 24 months on the number of customers taking advantage of the 60 kW exemption and the amount of standby service used by those customers.

While OTP's proposed language shows a good-faith effort to conform to the Commission's guidelines, the Commission finds that the Department's proposed additions provide greater clarity. By providing helpful elaboration and cross-references between relevant parts of the tariff, the Department's suggestions will better inform DG customers of the opportunities available to them. Additionally, the Department's proposal to have OTP report on its experiences with the 60 kW exemption appropriately reflects the Commission's ORDER ESTABLISHING STANDARDS and past decisions.[8] The Department's recommendations will be adopted.

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[7] A generator operates "in parallel" to a utility's system when it is "able, at any moment, to put power onto the utility's grid because the generator operates constantly – not just when a service interruption occurs – and in phase with the electricity distributed by the utility." ORDER ESTABLISHING STANDARDS at 6.

[8] ORDER ESTABLISHING STANDARDS, Attachment 6, Item 7.e; *In the Matter of the Petition of Dakota Electric for Approval of its Rider for Distributed Generation Service, Rider for Standby Service, and its Process and Technical Requirements Document*, ORDER APPROVING TARIFF RIDERS AND RELATED DOCUMENTS AS MODIFIED, Docket No. E-111/M-04-2049 (February 17, 2006) (Dakota Electric DG Order) at 7-8.

D. Payments to DG Customers

1. Avoided Costs

In addition to establishing guidelines governing a DG customer's payments to its utility, the ORDER ESTABLISHING STANDARDS provides for utilities to make payments to customers. The Commission concluded that these payments "should reflect the value of the distributed generation to the utility, including any reasonable credits for emissions or for costs avoided on the generation, transmission and/or distribution system."[9] To the extent that a customer helps the utility avoid costs for energy (such as fuel), capacity (such as generation or transmission facilities) or the costs of complying with legal mandates to control emissions or use renewable sources of energy ("green power"),[10] the customer should receive the benefit.

Moreover, to the extent that a utility may buy and sell "credits" used to fulfill legal mandates to control emissions or use green power, the utility must compensate the DG customer for the value of those credits. For example, the federal Clean Air Act rations the amount of sulfur dioxide (SO_2) firms may emit, but permits firms to buy and sell pollution allowances.[11] Similarly, the Minnesota Legislature provides for the creation of a system of tradable green power credits,[12] and the Commission is considering this matter in a separate docket.[13]

Consistent with the principle that a DG customer should be compensated to the extent that it benefits a utility, the Commission's ORDER ESTABLISHING STANDARDS states:

> *For tradable emissions such as SO_2, if a low emission DG facility allows the utility to capture the value of the emission credit, then the DG owner should receive the credit revenues.*
>
> *A DG customer may get green credit or an emission credit, but not both.*[14]

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[9] ORDER ESTABLISHING STANDARDS, Attachment 6, Item 4.

[10] For example, many utilities need to acquire green power to serve the needs of customers that order green power from the utilities' tariffs. Also, Minnesota Statutes § 216B.1691 directs Minnesota's investor-owned electric utilities, generation and transmission cooperatives, and municipal power agencies to make good faith efforts to obtain enough electricity from qualifying renewable energy technologies to represent 10% of total retail electric sales by the year 2015.

[11] 42 U.S.C. § 7651 *et seq*.

[12] Minn. Stat. § 216B.1691, subd. 4(a).

[13] See *In the Matter of In the Matter of a Commission Investigation into a Multi-state Tracking and Trading System for Renewable Energy Credits*, Docket No. E-999/CI-04-1616.

[14] ORDER ESTABLISHING STANDARDS, Attachment 6.

In recognition of these obligations, OTP proposes the following rider language:

> *Capacity/Energy*....
> Capacity and/or energy payment shall be based on Company's annual calculation of avoided energy and capacity costs. The capacity credits in effect at the time Customer enters into a power purchase agreement with Company shall remain in effect for the length of the agreement. Energy payments for use under the power purchase agreement shall reflect the current schedule. The Company's avoided energy costs shall include consideration of the actual value to the Company of avoided costs associated with renewable energy credits or emission credits. Upon written request by the Customer and after signing a non-disclosure agreement, the Company shall provide Customer the current schedule of capacity and energy credits....
>
> *Emission Payments*
> Any emission payments shall be included in the development of the Company's avoided energy costs.
>
> *Renewable Energy Credits*
> The Company will receive any renewable energy credits associated with Customer generated energy sold to the Company. Any renewable energy credits associated with Customer generated energy used on site and not delivered to the Company will remain with the Customer who owns the generator.

The DG Coalition argues that the proposed language must recognize the DG customer's right to control not only its own generation, but also the attributes of that generation. The Department generally shares this perspective. Moreover, the Department argues that the proposed language, and OTP's responses to inquiries, are ambiguous. Sometimes OTP appears to use the term "renewable energy credit" to refer to the financial premium electricity generated from renewable sources has over electricity generated from non-renewable sources. At other points in the rider, OTP uses the term to refer to the attributes that a utility might claim for purposes of fulfilling a statutory mandate.

To better conform to the Commission's standards and avoid confusion, at hearing the Department recommended clarifying OTP's language as follows:

> *Capacity/Energy*....
> Capacity and/or energy payment shall be based on Company's annual calculation of avoided energy and capacity costs. The capacity credits in effect at the time Customer enters into a power purchase agreement with Company shall remain in effect for the length of the agreement. Energy payments for use under the power purchase agreement shall reflect the current schedule. The Company's avoided energy costs shall include consideration of the actual value to the Company of avoided costs associated with renewable energy credits or emission credits. <u>Customer may receive either renewable credits or tradable emission credits but not both.</u> Upon written request....
>
> *Emission Payments*
> Any emission payments shall be included in the development of the Company's avoided energy costs <u>and shall equal the value of any revenues received by the Company from the emissions credit. Customer may receive either renewable credits or tradable emission credits but not both</u>.

Renewable Energy Credits
Customer who installs a renewable DG facility shall be paid (1) the Company's regular avoided cost and (2) for the transfer of the property rights to the Company of the renewable energy attributes (or renewable energy credits in the event of the development of a Commission-approved renewable energy tracking system) associated with the generation of renewable energy, a Renewable Resource Premium. ~~The Company will receive any renewable energy credits associated with Customer generated energy sold to the Company.~~ Any renewable energy ~~credits~~ attributes (or renewable energy credits in the event of the development of a Commission-approved renewable energy tracking system) associated with Customer generated energy used on site and not delivered to the Company will remain with the Customer who owns the generator. The Company has the option to negotiate with the Customer regarding purchases of the renewable energy attributes (or renewable energy credits in the event of the development of a Commission-approved renewable energy tracking system) associated with the Customer's on-site usage.

In addition, the Department recommends that OTP provide additional language in its compliance filing. Specifically, OTP should provide appropriate definitions of "Renewable Attributes," "Renewable Energy Credits," and "Renewable Resource Premium" consistent with any past Commission DG orders, and should conform the rest of its tariff language to reflect this new terminology.

The Commission finds the Department's recommendations appropriately address the issues raised by the DG Coalition. As theses parties note, the Commission has concluded that a DG customer may be entitled to receive a credit for generating renewable electricity, or for controlling emissions, but not both. It is appropriate for the rider to state this policy wherever it addresses emission payments or renewable energy credits.

In addition, the Commission finds that the Department aptly distinguishes among the meanings that OTP gave to the phrase "renewable energy credits." The Commission will direct OTP in its compliance filing to use these insights to further refine its rider language, distinguishing, defining and applying the distinct terms "renewable attributes," "renewable energy credits" and "renewable resource premium" in lieu of the undifferentiated term "renewable energy credits." By giving potential DG customers a more fully developed statement of the opportunities and obligations involved, these changes will facilitate the development of distributed generation.

2. Revising Avoided Cost Calculations

While OTP proposes to pay DG customers for the costs they permit OTP to avoid, the magnitude of these costs will change over time. To ensure that the DG customer realizes and can benefit from up-to-date information, the Department recommends that OTP annually file the following:

- An updated energy payment schedule if different from the previous year's.
- An updated capacity payment schedule if different from the previous year's.
- An updated renewable resource credit schedule if different from the previous year's.
- The average tradable emissions credit for the previous year.
- A discussion and support of any and all changes in the schedules.

The Department's proposal provides a reasonable way to inform current and future DG developers about the financial consequences of their developments, facilitating the growth of the DG market. Consistent with past practice,[15] the Commission will direct OTP to file this information.

E. Annual DG Interconnection Report

Minnesota Statutes § 216B.1611, subdivision 4(b), requires utilities to make annual reports as follows:

> Every electric utility shall file with the commissioner a distributed generation interconnection report for the preceding calendar year that identifies each distributed generation facility interconnected with the utility's distribution system. The report must list the new distributed generation facilities interconnected with the system since the previous year's report, any distributed generation facilities no longer interconnected with the utility's system since the previous report, the capacity of each facility, and the feeder or other point on the company's utility system where the facility is connected. The annual report must also identify all applications for interconnection received during the previous one-year period, and the disposition of the applications.

The DG Coalition argues that this information will provide a baseline for evaluating whether the new DG tariffs and policies are actually achieving the result of promoting distributed generation. Consequently, the Coalition asks the Commission to order utilities to file these reports, and to provide access to the reports via the Commission's site on the World Wide Web.

No party objected to the DG Coalition's request. At hearing the Department recommended that OTP conform to the practice adopted for other utilities and file its report by January 31 of each year. The Department stated its intention to post utilities' annual DG interconnection reports on the Internet.

The Commission finds the DG Coalition's proposal reasonable. Consequently, the Commission will continue its practice of directing utilities to file the statutorily-prescribed interconnection report annually, and will accept the Department's offer to post the reports on its website.[16]

F. FERC Order No. 2006

On May 12, 2005, the Federal Energy Regulatory Commission (FERC) issued Order No. 2006, its final rules standardizing agreements and procedures permitting a generator producing up to 20 MW of electricity to interconnect with a utility's electrical grid.[17] The Department suggests that the Commission seek comments from any interested party regarding how FERC's decision affects current proceedings before the Minnesota Commission. No party objected to this proposal.

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[15] *Dakota Electric DG Order* at 12; *Minnesota Power DG Order* at 3-4.

[16] *Dakota Electric DG Order* at 3-4; *Minnesota Power DG Order* at 8.

[17] *In re Standardization of Small Generator Interconnection Agreements and Procedures*, FERC Docket No. RM02-12-000 Final Rule (May 12, 2005).

Given the close relationship between the subject of Order No. 2006 and various Minnesota dockets, the Commission finds the Department's recommendation reasonable. The Commission will therefore open a new docket for the purpose of receiving comments on how this new federal order affects ongoing Commission proceedings.[18]

The Commission will so order.

ORDER

1. The filing of Otter Tail Power Company, a division of Otter Tail Corporation (OTP or the Company), is approved as revised and clarified.

2. Regarding the proposed Distributed Generation (DG) Rider, OTP shall do the following:

   - Post the process and technical documents from the ORDER ESTABLISHING STANDARDS on OTP's site on the World Wide Web, but replace the term "Area EPS" with "Otter Tail Power."
   - Include instructions in the rider for finding the relevant documents on the World Wide Web.
   - Amend the rider to inform potential customers without internet access how to contact OTP regarding DG questions.

3. Regarding the DG Rider, AVAILABILITY, item 1 (page 1), OTP shall add new language as follows:

   > <u>The distributed generation facility must be an operable, permanently installed or mobile generation facility serving the Customer receiving retail electric service at the same site.</u>

4. Regarding the DG Rider, SERVICES, Service Charge (page 1),OTP shall modify the proposed monthly customer charge from $12.34 to $11.57 to reflect the amount of additional customer account expense and customer service and informational expense that OTP incurs to serve a DG customer.

5. Regarding the DG Rider, SERVICES, Distribution Maintenance Charge (page 1), OTP may, when it installs additional distribution plant for a DG customer, assess a charge to recover the additional operation and maintenance (O&M) costs related to such additional plant, with the understanding that OTP will adjust this charge as it acquires more information regarding the O&M costs of such plant. The Department and OTP shall calculate an appropriate estimate of this cost based on OTP's history with the relevant type of plant.

6. Regarding the DG Rider, SERVICES, Services from Company to Customer, <u>Interconnection Services</u> (page 2), OTP shall substitute the State of Minnesota Interconnection Process for Distributed Generation Systems for OTP's interconnection process for distributed generation

[18] See *Dakota Electric DG Order* at 13; *Minnesota Power DG Order* at 9.

systems, including modifying its proposed language as follows:

> The technical requirements, addressing the safe and reliable interconnection of customer's equipment to the Company's system are described in the ~~Company's Guidelines for Generation, Tie-Line, and Substation interconnections ("Technical Handbook")~~ State of Minnesota Interconnection Process for Distributed Generation Systems....

7. Regarding the DG Rider, SERVICES, Services from Customer to Company, Capacity/Energy (page 3), OTP shall modify its proposed language as follows:

> If Customer offers to sell energy to the Company, then all such energy and/or capacity offered will be purchased by the Company under the rates, terms and conditions for such purchases as established by the Company under this tariff or under other mutually agreeable arrangement between the Company and the Customer.

8. Regarding the DG Rider, SERVICES, Services from Customer to Company, Capacity/Energy (page 3), OTP shall modify its proposed language as follows:

> The Company's avoided energy costs shall include consideration of the actual value to the Company of avoided costs associated with renewable energy credits or emission credits. Customer may receive either renewable credits or tradable emission credits but not both. Upon written request....

9. Regarding the DG Rider, SERVICES, Services from Customer to Company, Distribution Payments (page 3), OTP shall modify its proposed language as follows:

> If Company's study shows that there exists potential for distribution payments, Company shall, at its own expense, pursue further study to determine the distribution payment. ~~If the study is not part of the Company's normal distribution capacity study, then such a study shall be pursued with Customer's approval at Customer's expense.~~

10. Regarding the DG Rider, SERVICES, Emission Payments (page 3), OTP shall modify its proposed language as follows:

> Any emission payments shall be included in the development of the Company's avoided energy costs and shall equal the value of any revenues received by the Company from the emissions credit. Customer may receive either renewable credits or tradable emission credits but not both.

11. Regarding the DG Rider, SERVICES, Services from Customer to Company, Renewable Energy Credits (pages 3-4), OTP shall modify its proposed language as follows:

> Customer who installs a renewable DG facility shall be paid (1) the Company's regular avoided cost and (2) for the transfer of the property rights to the Company of the renewable energy attributes (or renewable energy credits in the event of the development of a Commission-approved renewable energy tracking system) associated with the generation of renewable energy, a Renewable Resource

Premium. ~~The Company will receive any renewable energy credits associated with Customer generated energy sold to the Company.~~ Any renewable energy ~~credits~~ attributes (or renewable energy credits in the event of the development of a Commission-approved renewable energy tracking system) associated with Customer generated energy used on site and not delivered to the Company will remain with the Customer who owns the generator. The Company has the option to negotiate with the Customer regarding purchases of the renewable energy attributes (or renewable energy credits in the event of the development of a Commission-approved renewable energy tracking system) associated with the Customer's on-site usage.

12. Regarding the DG Rider, SERVICES, Services from Customer to Company (pages 3-4), OTP shall add the following language:

    Line Loss Credits
    If Customer makes a written request to the Company to provide a specific line loss study, at the Customer's expense regardless of the study's outcome, Customer may be eligible for additional line loss credits if the study supports such credits.

13. Regarding the Standby Tariff, STANDBY SERVICE, APPLICATION OF SCHEDULE (page 1), OTP shall modify its proposed language as follows:

    1. Requests to become a Standby Service Customer of the Company. Otherwise, the Company views the Customer as a Non-Standby Service Customer~~;~~. For information about the different categories of Non-Standby Service Customers, including exemptions from Standby Service, please see Attachment No. 1-Definitions.

14. Regarding the Standby Tariff, STANDBY SERVICE, APPLICATION OF SCHEDULE, (page 1), OTP shall modify its proposed language as follows:

    2. Utilizes Extended Parallel Generation Systems to meet all or a portion of electrical requirements, which is capable of greater than 60 kW~~, and;~~. Customers with Extended Parallel Generation Systems used to meet all or a portion of electrical requirements that are capable of 60 kW or less are considered Non-Standby Service Customers and exempt from paying standby charges. Please see Attachment No. 1-Definitions for more information regarding Non-Standby Service Customers.

15. Regarding the Standby Tariff, STANDBY SERVICE, APPLICATION OF SCHEDULE (page 1), OTP shall modify its proposed language as follows:

    3. Enters into a contract ~~to sell output from the~~ for services related to its generator.

16. Regarding the Standby Tariff, STANDBY RATE OPTIONS, OPTION B: NON- FIRM STANDBY (page 2), OTP's may assess its proposed charge for non-firm standby service to the extent that it excludes generation and transmission cost components, consistent with the Commission's Standards.

17. Regarding the Standby Tariff, ATTACHMENT NO. 1, DEFINITIONS AND USEFUL TERMS (page 5), OTP shall modify its proposed language as follows:

> *Non-Standby Service Customer* is a customer that ... d) will take service from any of the Company's other approved base tariffs. Customers with Extended Parallel Generation Systems used to meet all or a portion of electrical requirements that are capable of 60 kW or less are considered Non-Standby Service Customers and exempt from paying standby charges. Standby Service for Customers with Extended Parallel Generation Systems used to meet all or a portion of electrical requirements that are capable of 60 kW or less is available under the Customer's base rate. For more information regarding physical assurance customers, please see Physical Assurance Customers under Definitions. ~~In any Non-Standby Service situation~~ For Large General Service or Large General Service-Time of Use Customers, a Special Minimum Demand may apply ~~and is subject to approval by the Minnesota Public Utilities Commission~~.

18. Regarding the Standby Tariff, ATTACHMENT NO. 1, DEFINITIONS AND USEFUL TERMS (page 6), OTP shall modify its proposed language as follows:

> *Special Minimum Demand* is a special demand calculation that the Company may use at its option for Large General Service or Large General Service-Time of Use Customers. ~~The Company must obtain approval from the Minnesota Public Utilities Commission~~.

19. Regarding the Standby Tariff, ATTACHMENT NO. 1, DEFINITIONS AND USEFUL TERMS (pages 5-6), OTP shall provide appropriate definitions of "Renewable Attributes," "Renewable Energy Credits," and "Renewable Resource Premium" consistent with any past Commission DG orders, and to conform the rest of its tariff language to reflect this new terminology.

20. OTP shall file a revised tariff and rider complying with the Commission's modifications within 30 days. Within 10 days of OTP's compliance filing, interested parties may file comments on the filing.

21. OTP shall file DG interconnection reports as required by Minnesota Statutes § 216B.1611, subdivision 4, no later than January 31 of each year for the Department to post on its site on the World Wide Web.

22. OTP shall provide annually –

    - An updated energy payment schedule if different from the previous year;
    - An updated capacity payment schedule if different from the previous year;
    - An updated renewable resource credit schedule if different from the previous year;
    - The average tradable emissions credit for the previous year; and
    - A discussion of and support for any and all changes in the schedules.

23. OTP shall report in 24 months on the number of DG customers meeting the exception of being 60 kW or less and the standby usage of these customers.

24. The Commission will initiate a docket inviting comments on the impact of FERC Order No. 2006, Final Rule (May 12, 2005) in Docket No. RM02-12-000 *In re Standardization of Small Generator Interconnection Agreements and Procedures* as it relates to the DG tariffs.

25. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

(S E A L)

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